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ADMINISTRATIVE AND BUDGETARY MATTERS

Progress report on preparation of final responses to Requests of the Commission on Narcotic Drugs at its reconvened thirty-eighth session

Note by the Executive Director

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INTRODUCTION

1. In response to requests by the Commission on Narcotic Drugs at its reconvened thirty-eighth session, the present note by the Executive Director contains a progress report on the preparation of final responses concerning the following matters: the review of the financial functioning of the United Nations International Drug Control Programme (UNDCP) with regard to the need to promulgate separate financial rules; review of the programme support cost arrangement to cover administrative and substantive backstopping costs; and clarification from the Advisory Committee on Administrative and Budgetary Questions on its observation on the budget methodology.

I. FINANCIAL RULES

2. The Commission on Narcotic Drugs, in paragraph 15 of its resolution 15 (XXXVIII) of 13 December 1995, requested the Secretary-General to take note of the recommendations of the Committee, to review, as necessary, the financial functioning of UNDCP with regard to the need to promulgate separate financial rules, and to report on the matter to the Commission at its thirty-ninth session. The recommendations of the Committee are contained in its report on the Fund of UNDCP (E/CN.7/1995/22, para. 34). In considering the issue, the Committee took into account the magnitude of the extrabudgetary resources of UNDCP and the distinctive features of the programme of UNDCP. In the review of current experience, particular attention was to be given to the requirements for an operational reserve.

3. In 1991, the Secretary-General considered the need to promulgate separate financial rules for UNDCP and, where necessary, exceptions to the Financial Regulations of the United Nations (A/C.5/46/23, para. 5). Having reviewed the proposed financial rules of the Fund of UNDCP annexed to document A/C.5/46/23 and considered the comments of the Committee,[1] the Secretary-General concluded, however, that UNDCP, for the time being, should be able to continue to operate within the framework of the Financial Rules of the United Nations. Should experience show that the functioning of UNDCP required separate financial rules, the Secretary-General would be prepared to review the situation.

4. The recommendations of the Committee and the request of the Commission were brought to the attention of the Under-Secretary-General for Administration and Management at the end of 1995. A report on the current experience of the financial functioning of UNDCP was provided to, and discussed with, the financial authorities of the United Nations at Headquarters in February 1996. The need to promulgate separate financial rules for UNDCP are currently being reviewed by the financial authorities. The report of the Secretary-General will be submitted to the Commission through the Committee. The final report on the need to promulgate separate financial rules for UNDCP is expected to be submitted to the Commission at its fortieth session.

II. PROGRAMME SUPPORT COST ARRANGEMENT

5. The Commission, in paragraph 17 of its resolution 15 (XXXVIII), requested the Executive Director to assess the ability of the programme support cost arrangement to cover the administrative and substantive backstopping of technical cooperation projects and to report on it to the Commission at its thirty-ninth session.

6. A programme support cost arrangement for UNDCP was presented in document E/CN.7/1993/15 to the Commission at its reconvened thirty-sixth session. A programme support cost budget for the biennium 1996-1997 was presented to the Commission at its reconvened thirty-eighth session in document E/CN.7/1995/21.

7. Applying the United Nations model, UNDCP retains the following programme support rates: 13 per cent for UNDCP-executed projects; a share of 13 per cent for projects executed by UNDCP together with associated agencies; zero per cent for agency- and government-executed projects. In accordance with United Nations policy and as noted in paragraph 174 of document E/CN.7/1995/21, total programme support income for UNDCP amounts to approximately 3.0 per cent of the total budget for project activities during the biennium 1996-1997. The programme support budget for the biennium 1996-1997 has been elaborated on the basis of income generated through that arrangement, it being understood that the resources available are insufficient to fully cover all administrative and technical costs incurred in the implementation of the projects. In paragraph 2 of the UNDP-sponsored study contained in document ACC/1993/FB/R.7, the actual support cost was calculated to amount to 31.9 per cent of total project expenditure.

8. The current programme support cost arrangements are seen to have two major shortcomings. First, the programme support cost budget does not present the full range of programme support activities. Rather, only those programme support activities are identified which can be sustained by programme support income. Secondly, programme support income is insufficient to fund programme support activities. The Secretariat is preparing a study which addresses both issues. In particular, the full programme support cost requirements at Headquarters and in the field offices are being identified, and alternative options for increasing programme support income are being elaborated. On the basis of the study and in response to paragraph 17 of resolution 15 (XXXVIII), the Executive Director will submit proposals on an improved programme support cost arrangement to the Commission.

9. The proposals for an improved programme support cost arrangement will need to be put forward in accordance with the financial rules applicable to UNDCP, which are currently under review as outlined in section I above. Moreover, the proposals will need to be elaborated in close consultation with the financial authorities of the United Nations. The Executive Director further recommends that the proposals should be submitted through the Committee to the Commission. In order to follow the proposed course of action, a document on the programme support cost arrangement for UNDCP will be submitted to the Commission at its fortieth session.

III. BUDGET METHODOLOGY

10. As noted in paragraph 17 of the report on the reconvened thirty-eighth session of the Commission, the Chairman of the working group established to prepare a draft resolution recommended that the Secretariat should continue to seek clarification from the Committee on its observation on the budget methodology, and should report on the results of those efforts to the Commission at its thirty-ninth session.

11. Commenting on the budget methodology, the Committee stated in paragraph 20 of E/CN.7/1995/22 that the presentation of the budget estimates for the biennium 1996-1997 were misleading and should be discontinued. The methodology used for the recosting of the budget was considered faulty, leading to large overestimates. The Committee also indicated that a less mechanical approach should have been used for arriving at the revised estimates, and expenditure should have been examined more in terms of actual requirements and past performance. It recommended that the budget estimates for the biennium 1996-1997 should be considered on the basis of expenditure estimates, and recalled its previous comments with regard to the revised estimates for the biennium 1994-1995 and the outline for the biennium 1996-1997. In particular, the Committee indicated that in arriving at revised estimates for 1994-1995, "it did not appear that the performance experience had been taken into consideration, thus limiting the use of the document".

12. UNDCP utilizes the budget methodology of the United Nations. The current presentation is considered to enhance transparency and budgetary integration. In view of the critical comments of the Committee, UNDCP sought additional clarification and guidance from the Committee on the issue of budget methodology in late 1995. In addition, the request by the Commission for further clarifications to be submitted for

consideration at its thirty-ninth session was brought to the attention of the Committee. In particular, the Committee was asked to comment on the following issues: recosting methodology; comparison of budget proposals between two bienniums; relationship between recosting of budget estimates and expenditure estimates; comprehensive budget presentation including Headquarters, field operations and project activities; and application of United Nations budget methodology by UNDCP.

13. Consultations were held in January and February 1996 between UNDCP, the Committee and the financial authorities of the United Nations on the current budget methodology used by UNDCP. It appears that the Committee recommends modification of the budget methodology in such a way as to provide for a comparison between the proposed budget estimates of the forthcoming biennium and the expenditure estimates of the current biennium. Other suggestions, however, did not appear to be consistent with the budget methodology applied in the United Nations regular budget. Consultations on specific recommendations are continuing, and are expected to be concluded by mid-1996. The final interpretation of the observations made by the Committee on the budget methodology and the recommendations by the Secretariat will be submitted to the Commission at its fortieth session.

IV. CONCLUSIONS

14. The current progress report highlights the need to cover the various stages required in the formulation process before detailed proposals can be submitted to the Commission, including the involvement of the Committee. If the proposals are made by the Executive Director, detailed consultations are required with the financial authorities of the United Nations. If the proposals are presented by the Secretary-General, UNDCP will assist in the preparation of the requested report, final responsibility for which will lie with the relevant office at Headquarters. Moreover, some of the issues currently being considered are interlinked. For example, it appears advisable to outline a new programme support cost arrangement only if a recommendation has been made on the need for separate financial rules for UNDCP. Whereas the current progress report indicates steps already taken and issues to be highlighted in future work, the final report, including recommendations for change, will be submitted to the Commission at its fortieth session.

Notes

[1] *Official Records of the General Assembly, Forty-sixth Session, Supplement No. 7A* (A/46/7/Add.1-16), document A/46/7/Add.9.